



NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

FOR IMMEDIATE RELEASE
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STATE TREASURER ANGELIDES CALLS ON GOVERNOR SCHWARZENEGGER TO ABANDON PATH OF DEBT AND BUDGET DECEPTION

***Angelides Launches Statewide Effort Urging Governor to Change Course
and Keep Budget Promises to Protect Education and Health Care***

SACRAMENTO, CA – As Governor Schwarzenegger prepares to deliver his State of the State speech tomorrow, and submit his fiscal year 2005-06 budget on Monday, State Treasurer Phil Angelides today urged the Governor to end his failed policies of debt and budget deception which have left California facing \$26 billion in credit card debt, a looming \$8.1 billion budget deficit, and the threat of draconian cuts to education and health care which the Governor promised to protect.

At a press conference today at The Center for Community Health & Well-Being, a Sacramento health care clinic, Angelides outlined the stark consequences of Governor Schwarzenegger's failed fiscal policies and called on the Governor to change course – delivering on his promise of a balanced budget that protects education and health care.

Amidst reports that Governor Schwarzenegger will use his State of the State speech to shift attention away from the impacts of his budget policies, Angelides today announced that he is launching a statewide effort of his own in order to keep the focus of the debate in the coming weeks on the enormous consequences of the Governor's budget choices.

“Governor Schwarzenegger told Californians that his budget was the path to fiscal recovery; however, the Governor's path has led directly to \$26 billion in credit card debt and a looming \$8 billion plus budget deficit that now threatens devastating cuts to critical services and investments in our people and our communities,” said Angelides. “The stakes are too high for California to continue in the wrong direction. The Governor needs to change course – abandoning his policies of debt and budget deception and keeping his promise of a balanced budget that protects education and health care,” Angelides continued.

“In the coming days and weeks, I plan to present the facts of our fiscal situation to the people of California, because nothing is more important than balancing our budget in a way that is fiscally responsible, that is fair, and that protects opportunities for the people of our State,” said Angelides, who has consistently opposed the Governor’s policies of borrowing and budget deception.

Angelides pointed out at today’s gathering that Schwarzenegger himself has repeatedly said that restoring California’s fiscal integrity would be his top priority. “Governor Davis’ current budget is collapsing under the weight of its own deceit.... We have the worst deficit, the worst credit rating, and the worst money management,” said Schwarzenegger while campaigning for Governor in October, 2003. In presenting his own budget in January, 2004, Schwarzenegger declared “The budget I have put before you sets California on a clear path of recovery.” While signing his budget in July, 2004, the Governor stated, “This is a fair and responsible budget” that would get California “out of the poorhouse and make it again a powerhouse.”

Despite his promises, after more than one year in office, California remains mired in an unprecedented fiscal crisis. The Governor’s reliance on borrowing has caused California’s total credit card debt – the debt accumulated to pay for the State’s budget deficits – to skyrocket to \$26 billion – 40% higher than when Governor Gray Davis left office. That debt will cost each Californian approximately \$720. The cost of this credit card debt repayment alone will reach nearly \$4 billion annually by fiscal year 2006-07 – more than the State spends for the entire University of California system. Next year’s deficit of \$8.1 billion is comparable to the combined total spent on community colleges, the California State University, and the University of California. It is the equivalent of all spending for environmental protection, resources, prisons, and courts – combined.

By next year, the annual budget deficit is projected to reach a staggering \$10 billion – greater than the budget deficit that helped precipitate the 2003 recall election that ousted Governor Davis and elected Governor Schwarzenegger. While nearly every other state has staged a fiscal recovery with balanced budgets, California’s fiscal woes have worsened – damaging the State’s economic competitiveness. Two years ago, 42 states faced budget gaps. California is now one of only three states facing budget shortfalls. And, even the Governor’s own newly appointed Director of Finance, Tom Campbell, has said the time has come for an “honest budget.”

“The Governor likes to talk about ‘change,’ and I suspect he’ll do so again in tomorrow night’s speech,” said Angelides. “If Governor Schwarzenegger is truly interested in making the changes that California desperately needs, he must change his failed budget policies. California simply cannot afford another year of debt and budget deception.”

“This week is a critical turning point for our State. By making the right choices, and balancing the budget fairly, California can rededicate itself to broadening opportunity and increasing our economic competitiveness in the global marketplace,” concluded Angelides.

Attachments

- ❑ Memo to the California public and press
- ❑ Chart 1: California's Credit Card Debt Has Increased by 40%
- ❑ Chart 2: Annual Cost of Credit Card Borrowing Will Skyrocket to \$4 Billion
- ❑ Chart 3: Credit Card Debt Repayment Will Be 4th Largest General Fund Budget Cost - Exceeding Support for University of California
- ❑ Chart 4: Massive Deficits As Far As the Eye Can See
- ❑ Chart 5: Looming Budget Deficit Dwarfs Investments in Education and Health Care
- ❑ Chart 6: While Other States Recover, California's Budget Woes Mount

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**MEMORANDUM**

Date: January 4, 2005
To: Members of the California Public and Press
From: State Treasurer Phil Angelides
Subject: California Needs a Budget with No More Debt and No More Deception

One year ago, Governor Arnold Schwarzenegger told Californians that, “The budget I have put before you sets California on a clear path of recovery.” And when he signed the budget last July, he proclaimed that, “This is a fair and responsible budget” that would get California “out of the poorhouse and make it again a powerhouse.”

Over the last twelve months, I have expressed my deep concern about and opposition to the Governor’s budget and fiscal policies. I have consistently urged him to put forth a budget that is truly balanced, that is fair, and that protects opportunity for Californians. Yet, he chose instead to rely on debt and budget deception to paper over the State’s serious fiscal problems.

Tragically for our state, a little more than a year after the Governor took office – and three years after the end of the last recession – California remains mired in fiscal crisis. Saddled with a budget that the Governor built on unprecedented and massive amounts of new borrowing, California is still facing huge deficits long after almost every other state has balanced its budget.

During the recall campaign and his first year in office, the Governor clearly vowed that restoring the State’s fiscal integrity would be his top priority. Despite that pledge, his policies have dramatically increased the State’s debt and put at risk the vital services, such as education and health care, that he promised to protect, that Californians value most, and that are essential to the State’s future.

California cannot afford another year of debt and budget deception. The stakes are too high. California’s fiscal integrity and economic competitiveness are on the line. It is time for the Governor to keep his promise to propose a balanced budget that protects education and health care.

On October 1, 2003, Governor Schwarzenegger told Californians that “Governor Davis’ current budget is collapsing under the weight of its own deceit.” He also said that, “We have the worst deficit, the worst credit rating, and the worst money management,” and that he had a plan for fiscal recovery. He led California down that path, and here is where the State now finds itself:

- **California’s Credit Card Debt Has Increased by 40 Percent.** Despite the Governor’s pledge to “tear up the State’s credit card,” he relied on continuing borrowing and deferrals to mask the shortfall in the current budget. The Governor has raised California’s total debt for the State’s budget deficits to \$26 billion, according to the Legislative Analyst’s Office (LAO), a 40 percent increase since he took office. (See Chart 1.) That debt will cost each man, woman, and child in the state about \$720.

- **Annual Cost of Credit Card Borrowing Will Skyrocket to \$4 Billion.** That huge load of deficit-related debt will place substantial new burdens on future budgets, putting critical services and investments in people and communities in peril. Debt payments on deficits will cost nearly \$4 billion a year in the three budgets beginning in fiscal year 2006-07, the LAO now projects. (See Chart 2.)
- **Credit Card Debt Repayment Will Be Fourth Largest Budget Cost – Exceeding Support for University of California.** At approximately \$4 billion a year, debt repayments for the deficit will be the fourth largest program cost in the budget, behind only K-12 schools, Medi-Cal, and prisons. Four billion dollars is more than the state currently spends from the General Fund for the University of California, the California State University, community colleges, Supplemental Security Income for the aged, blind, and disabled, Temporary Assistance for Needy Families (TANF), or Healthy Families. It is more than the State spends on debt service for capital projects, such as schools, colleges, and water systems, which are essential for future economic growth and quality of life. (See Chart 3.)
- **Massive Deficits As Far As the Eye Can See.** Because the Governor relied on massive borrowing and did not cure California's underlying structural budget deficit, the current budget leaves the State once again facing massive shortfalls, this time an \$8.1 billion deficit for the 2005-06 fiscal year that begins July 1, according to the Governor's own Department of Finance. According to projections by the LAO, the budget gap will grow to \$10 billion in 2006-07 and persist for the foreseeable future, even if the economy continues growing strongly. If the economy slows, the deficits would explode.

These projected structural budget gaps are larger than the gaps the LAO projected in September 2003 during Gray Davis' last months in office and larger than the deficit in the 2002-03 budget that helped precipitate the 2003 recall election that ousted Governor Davis and elected Governor Schwarzenegger. (See Chart 4.)

- **Looming Budget Deficit Dwarfs Investments in Education and Health Care.** By failing to close these budget gaps, the Governor has left education and health care – programs he unequivocally promised to protect – on the budget chopping block. Once again, it appears that those most likely to suffer because of the Governor's policies are the people who most need a champion: students looking to get a college education and a better life; working families looking to get health care for their children.

The projected budget gap for the coming fiscal year dwarfs most state programs. (See Chart 5.) An \$8.1 billion budget gap is equivalent to the General Fund's combined spending on community colleges, the California State University, and the University of California. It is equal to all General Fund spending for environmental protection, resources, prisons, and courts put together.

Closing the budget deficit by spending cuts alone would require deep cuts in services at a time when California's level of General Fund spending is already in line with historical averages. According to the LAO and Department of Finance, State General Fund spending in fiscal year 2004-05 is projected to take the same share of state personal income as in 1998-99, Governor Pete Wilson's last budget. Spending as a percentage of personal income will be lower this year than during the last year of the Deukmejian administration.

- **While Other States Recover, California's Budget Woes Mount.** The Governor promised to end the budget crisis that has tarred California's financial reputation and is hurting our economic competitiveness. Yet while almost every other state has staged a budget recovery, California's fiscal woes continue to mount.

Two years ago, California's fiscal misery was broadly shared across the country; it was one of 42 states with a budget shortfall. Today, it is virtually alone. "Budget gaps are practically non-existent," the

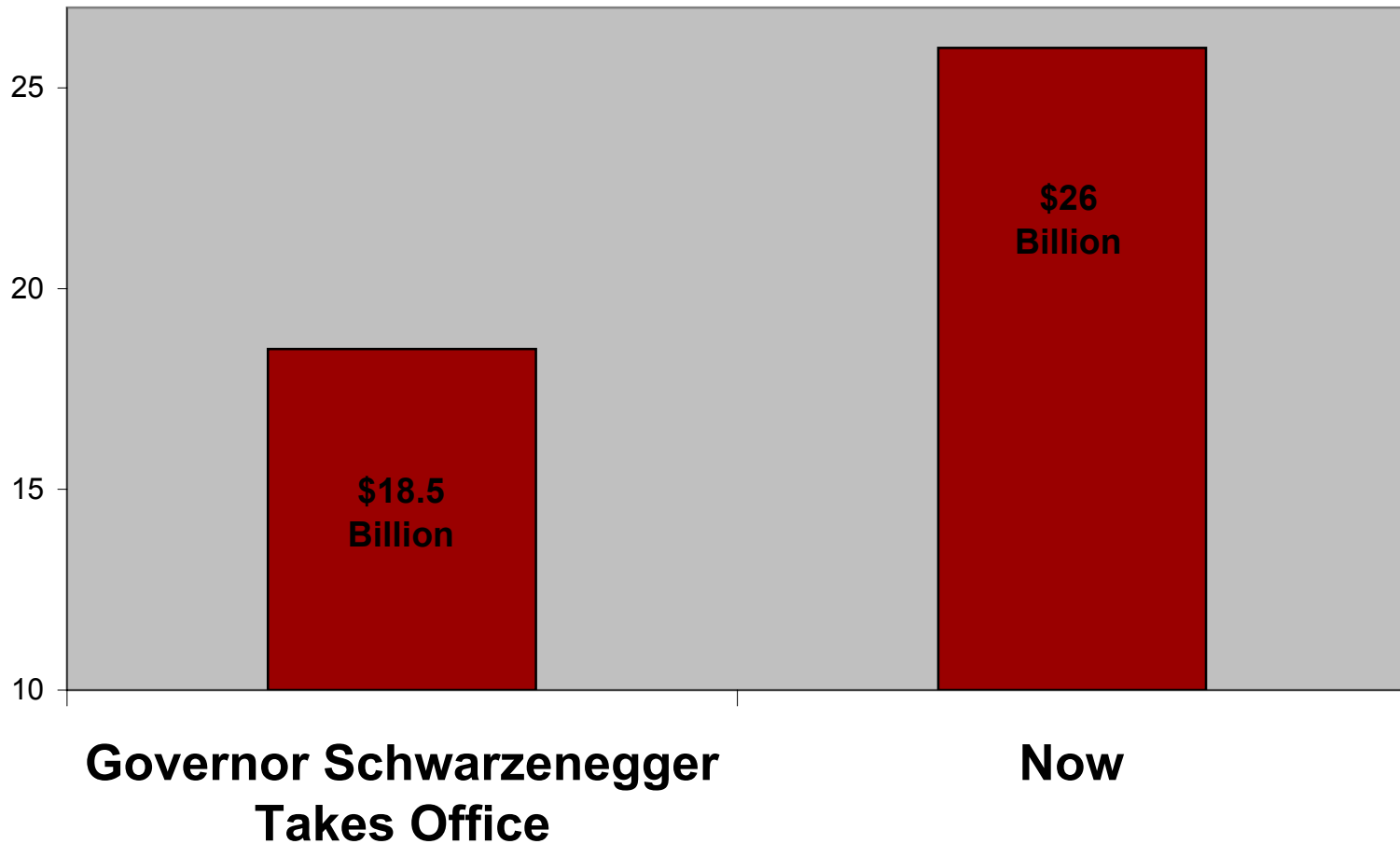
National Conference of State Legislatures reported in its “State Budget Update” in November. According to NCSL data, California is only one of three states with a budget gap in the current year, and only three other states face budget shortfalls next year that represent as large of the percentage of budget as California’s. (See Chart 6.)

California is not where it needs to be or where the Governor promised to take us. By taking the path of debt and budget deception, the Governor has placed California in a precarious situation, where its people face devastating cuts in health and education programs. And California once again finds itself focused on, and arguing about, how to pay the debts of the past, not about how to better compete in the global marketplace, better educate our children, and build better communities.

The Governor promised to end our budget deficits while protecting education and health care. As Treasurer, I urge him to live up to his word, delivering a budget that is balanced with no new borrowing, that fairly shares the burden of putting the state back on track, and that protects opportunity for the people of California.

California's Credit Card Debt Has Increased by 40%

Billions of Dollars



California's Credit Card Debt Has Increased by 40%

“I promise you as governor I will not spend more money than the state takes in.”

-Governor Schwarzenegger to Fox News' Bill O'Reilly, 9/10/03

“Governor Davis' current budget is collapsing under the weight of its own deceit.”

-Governor Schwarzenegger, speech at Memorial Auditorium, Sacramento, 10/1/03

“We passed a balanced budget amendment....Never again will government be allowed to spend money it doesn't have....Never again will the state be allowed to borrow money to pay for its operating expenses.”

-Governor Schwarzenegger, 2004 State of the State Address, 1/6/04

“We've got to have this restructuring of a bond for inherited debt, refinancing it and then have this never-again spending limit so that the politicians will never again spend more money than they have.”

-Governor Schwarzenegger, campaigning for Propositions 57 and 58, *San Diego Union-Tribune*, 1/24/04

“We will...cut up the credit cards and throw them away.”

-Governor Schwarzenegger, campaigning for Propositions 57 and 58, *The Associated Press*, 2/6/04

“Proposition 58 will prevent the Legislature from ENACTING BUDGETS THAT SPEND MORE MONEY THAN WE HAVE.”

-Governor Schwarzenegger, Argument in Favor of Proposition 58, the California Balanced Budget Act, in Supplemental Voter Pamphlet for the March 2, 2004 Primary Election (emphasis in original)

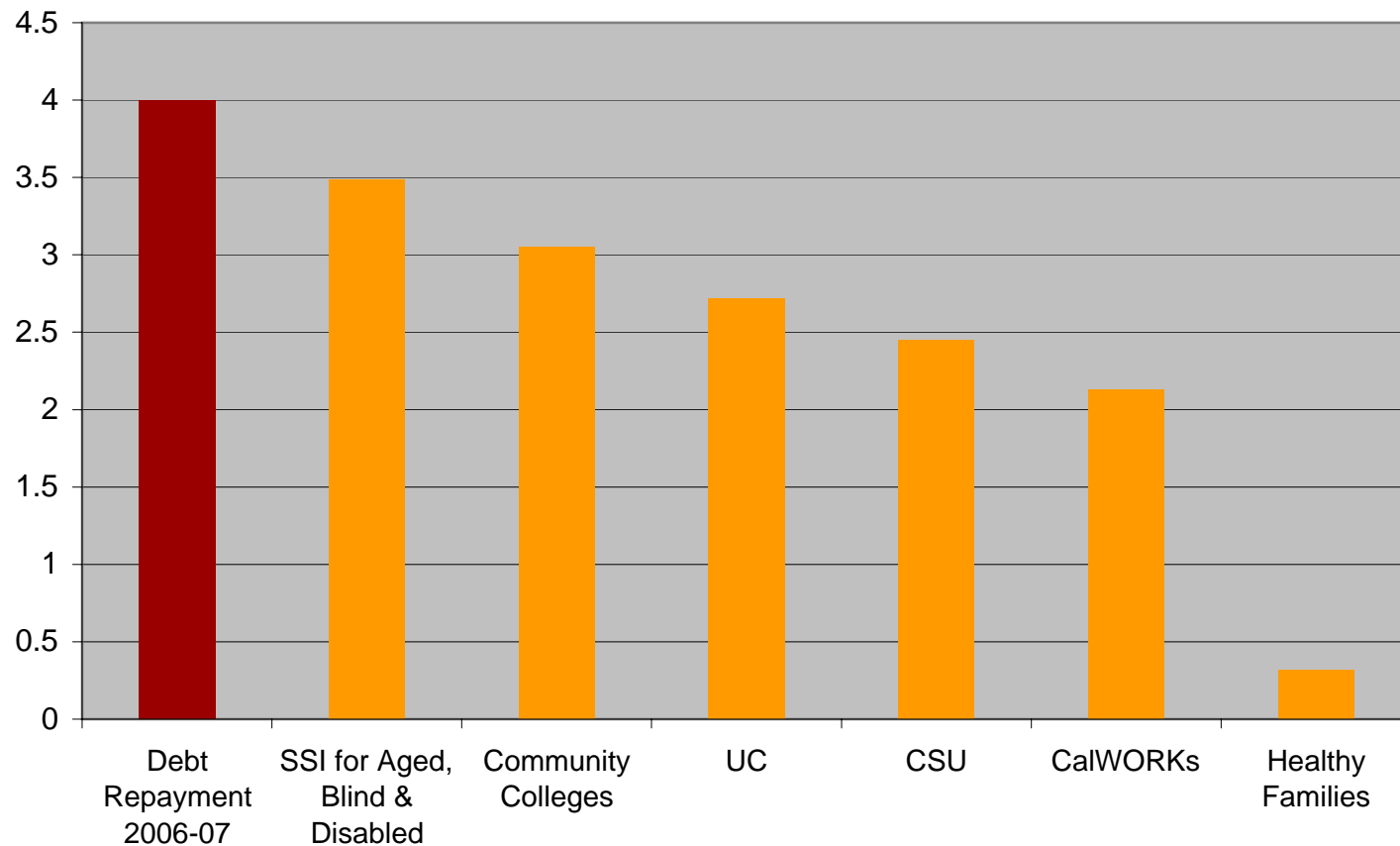
Annual Cost of Credit Card Borrowing Will Skyrocket to \$4 Billion



Source: LAO

Credit Card Repayment Will Be 4th Largest General Fund Budget Cost - Exceeding Support for University of California

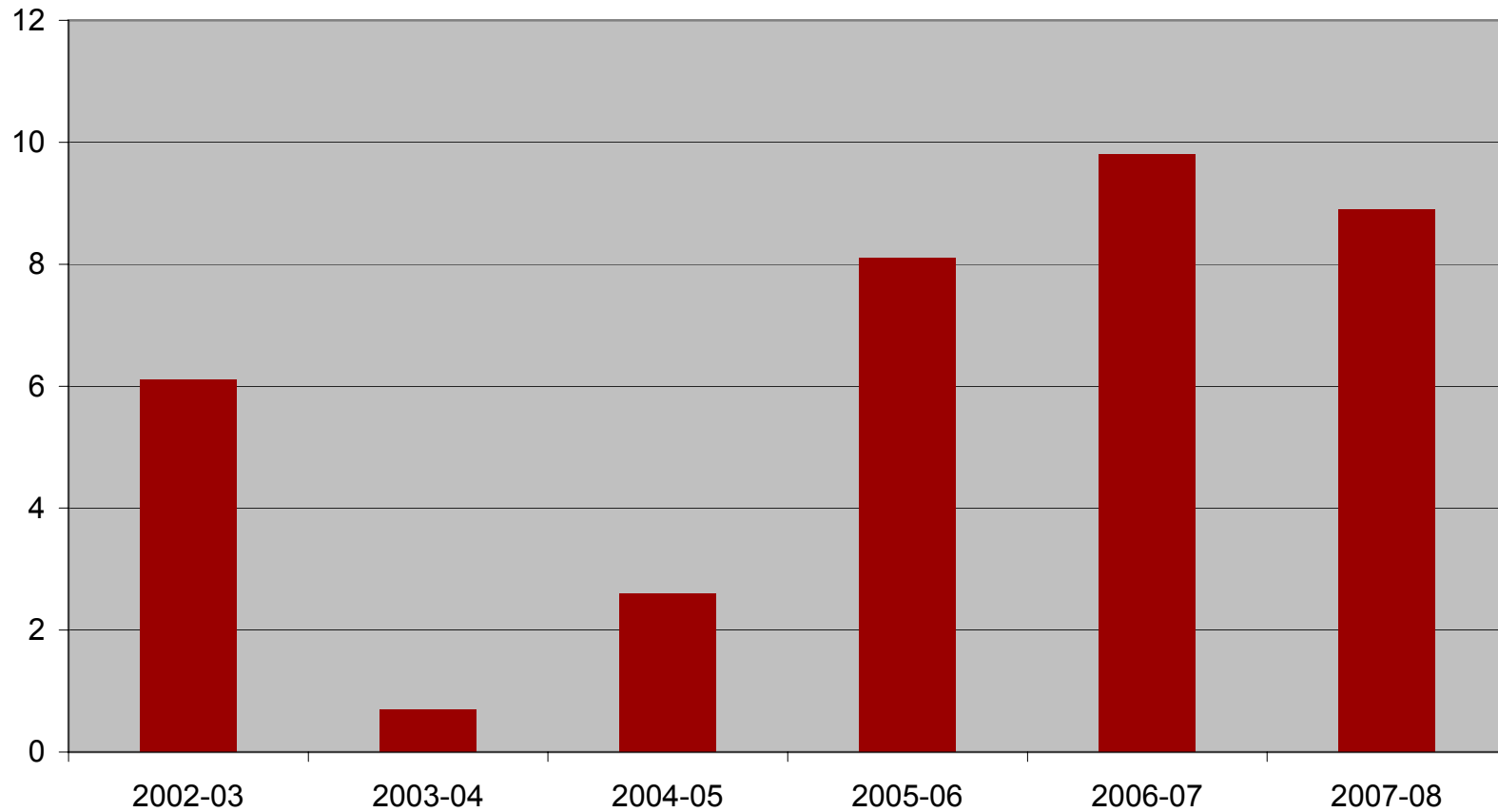
Billions of Dollars



(Current Year General Fund Expenditures) Source: LAO

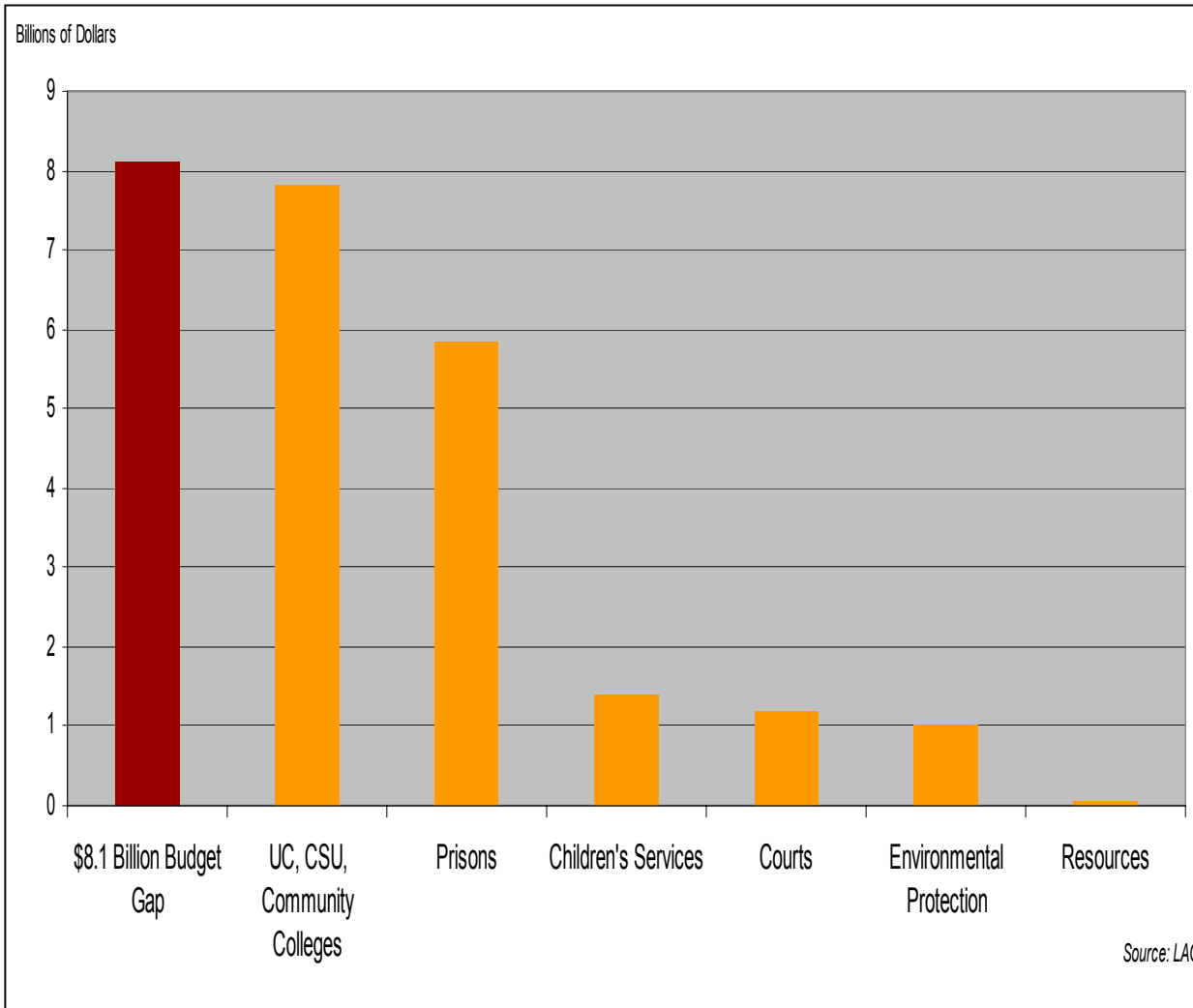
Massive Deficits As Far As The Eye Can See

Billions of Dollars



Source: LAO

Looming Budget Deficit Dwarfs Investments in Education and Health Care



“I won’t cut education.”

- Governor Schwarzenegger, *San Francisco Chronicle*, 10/7/03

“We must work to expand the dream of college.”

- Governor Schwarzenegger, 2004 State of the State Address

“We have to make sure that every child in California is insured. That is the most important thing. I’m very passionate about children’s issues. It is very important because they cannot fend for themselves.”

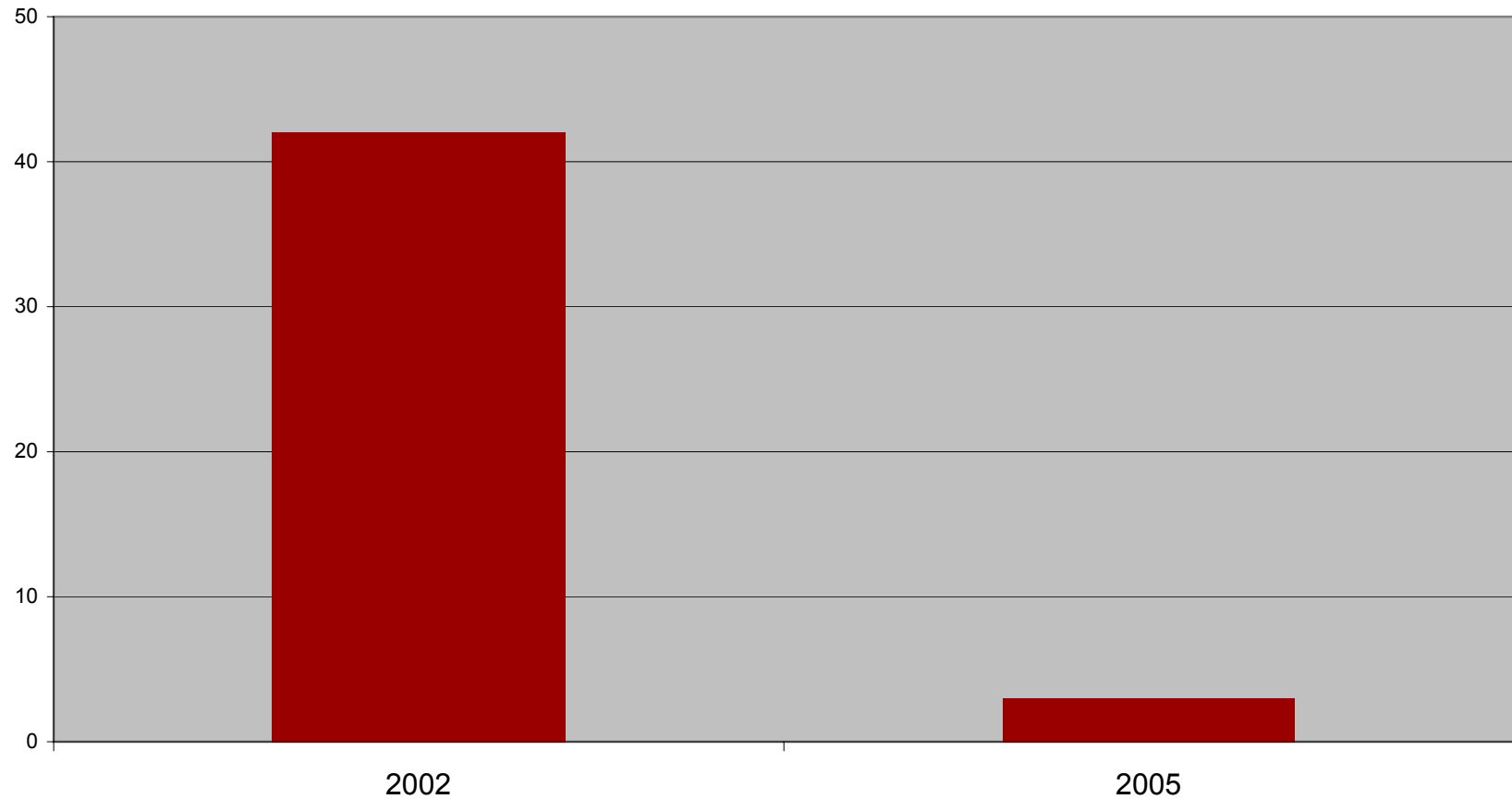
- Governor Schwarzenegger in campaign debate, 9/24/03

“I will protect California’s commitment to education funding.”

- JoinArnold.com

While Other States Recover, California's Budget Woes Mount

States with Budget Deficits



Source: National Conference of State Legislatures and
Center for Budget and Policy Priorities